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Report Highlights:
Despite the global recession, the Philippine economy is expected to continue growing, albeit at a slower rate, in the next two years. Rice imports will decline in MY08/09 after significant imports the previous year but recover in MY09/10 to ensure adequate buffer stocks leading to the 2010 Philippine Presidential elections. Wheat imports are likely to increase this year enhanced by lower prices and strong feed demand but are likely to decrease in MY09/10 as local feedgrain production normalizes. Tightness in local corn supply due to production-related problems will likewise result in higher corn imports this year. Corn imports are expected to increase in MY09/10 this year due to strong feed demand as local hog and poultry raisers prepare for the final reduction in regional meat tariffs in 2010.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Manila [RP1]
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Executive Summary

Philippine grain production this year will be less-than-expected due to the effects of changing weather patterns and high fertilizer costs. Shifts in planting and harvesting schedules will result in delayed harvests, particularly for corn resulting in scarcity of the feedgrain in MY08/09. No dramatic change in rice and corn production is predicted the following year or in MY09/10

The Philippine economy has displayed resiliency to the global recession and although it is expected to feel its effects more this year, the economy is still expected to post positive growth in 2009. Overall grain consumption is likely to increase in the next two years with both food and feedgrain demand expanding. Demand for rice, the main staple, will continue to increase steadily in the next two years as the Philippine population continues to expand. Growth in rice consumption is expected to ease next year, however, as effects of the global recession become more pronounced and the domestic economy expected to slowdown further.

Wheat consumption will considerably increase in MY08/09, enhanced by declining world prices and a surge in feedwheat demand. Tightness in local corn supply and delays in corn importation will result in less competition from feed corn during the year. Feed corn use in MY08/09, therefore, and will likely decline from the previous year's level although corn losses are expected to increase. As a result, overall corn consumption during the year is expected to remain flat compared to the previous year's level.

A reversal is predicted in MY09/10 as corn use will likely displace feed wheat consumption and increase from the previous year's level. Feed wheat demand for the period will likely decline as a result. For milling wheat, consumption will likely continue increasing in MY08/09 but expected to decelerate in MY09/10 due to the predicted slowdown of the Philippine economy. Overall wheat consumption in MY09/10 will likely decline from the previous year's level while corn consumption is expected to increase during the same period.

Rice imports in MY08/09 will decline due to record-level importation the previous year but expected to increase in MY09/10 to strengthen its food security position. Corn and wheat imports in MY08/09 will increase from the previous year's levels primarily due to tightness in local feedgrain supply.

Production

Data from the Bureau of Agricultural Statistics (BAS) of the Philippine Department of Agriculture (DA) reveal that in 2008 the local agricultural sector slowed to 3.9 percent from the previous year's 4.6 expansion. All subsectors posted gains during the period except for the livestock subsector which contracted primarily due to a decline in hog production. According to the BAS, there were notable decreases in stocks and number of animals slaughtered due to animal disease outbreaks in the first semester of the year. The crops subsector expanded 4.0 percent last year with paddy rice and corn production posting output increases of 3.5 percent and 2.8 percent, respectively.

According to the BAS, paddy rice output reached 16.8 MMT in 2008 or 3.5 percent more than the 2007 level. Area harvested rose enhanced by the movement of harvests as a result of cold weather and the use of early maturing varieties. Because of this, area harvested and rice production figures in MY07/08 were raised. Milling rates, however, were pared down slightly to reflect the inefficiency of current milling facilities.

Corn output last year, on the other hand, amounted to 6.9 MMT which was 2.8 percent better compared to the previous year, according to the BAS. Like rice, cold weather in the major corn producing province of Cagayan Valley resulted in increased area harvested due to early plantings and delayed harvests. Area harvested and production figures in MY07/08 were likewise revised upwards to reflect the reported production gains in 2008.

The DA has forecasted national paddy rice and corn output to reach 17.8 MMT and 7.2 MMT, respectively, in CY2009. On a market year basis, although area harvested for both grains are projected to be higher-than-expected and therefore raised in MY08/09, rice and corn production during the period were pared down and expected to be lower than the official forecast. The lower estimate is due to the adverse effects of three successive typhoons and the expected decline in yields of both grains due to a surge in fertilizer prices. Despite this, rice production in MY08/09 is still projected to increase from the previous year's level. For corn, the high input costs coupled with the temporary lifting of wheat tariffs (refer to TRADE Section) will likely result in the decline in corn output compared to the previous year's level. Local corn prices have already increased indicating a scarcity at the turn of CY2008. The situation may normalize as bulk harvests start to commence sometime in March 2009.

No dramatic change in Philippine rice and corn production is expected the following year or in MY09/10 as a result of increasing production costs as well as the economic uncertainty brought about by the global recession. No commercial production of wheat in the Philippines is expected through MY09/10.

Consumption

Despite the food and fuel crisis followed by the start of the global recession last year, Philippine 2008 GDP growth still managed to grow by 4.6 percent, slower compared to the 7.2 percent expansion in 2007, but near the upper end of the 4.1-4.8 percent target. The growth in the services sector declined to 4.9 percent from 8.1 percent the previous year while industrial output declined to 5 percent last year from 7.1 percent in 2007. The services and industrial sectors account for more than three fourths of the local economy. Data from the Philippine Central Bank for the first 11-months of 2008 show inflation averaging 9.4 percent. Peak inflation was at 12.4 percent in August falling to a single-digit rate in November as a result of declining food and fuel prices. Full year inflation for 2008 would likely fall in the 6-8 percent range.

Remittances from Overseas Filipino Workers (OFWs) continue to be the bright spot of Philippine GDP and help maintain domestic personal consumption in 2008. Local economists agree that OFW remittances have helped shield the Philippines from effects of the global economic meltdown. Philippine government (GRP) planners, though, predict the ill effects of the global crisis to be more pronounced in 2009 with OFW remittances to decline during the year. The country's semiconductor manufacturing sector, which contributed more than 60 percent of total exports, is reportedly expected to slow by as much as a tenth this year. Unemployment last year averaged 6.8 percent and is a growing GRP concern, both locally and abroad.

Despite the threats, official Philippine GDP growth this year is still forecasted at 3.7 percent to 4.7 percent. The International Monetary Fund (IMF), on the other hand, projects Philippine GDP in 2009 to grow at a slower 2.25 percent while the World Bank has a higher 3.0 GDP growth prediction. The latter reportedly projects Philippine GDP growth in 2010 at 4.1 percent.

More-than-adequate rice supply due to the significant imports and very good local production in MY07/08 placed extra pressure on the already weak milling, storage and marketing infrastructure resulting in significant wastage losses. This is in addition to storm-related losses caused by damaged storage facilities in major rice growing areas during the market year. The National Food Authority (NFA) continues to sell rice at a subsidized rate of P18.25 ($0.38) per kilo while commercial rice prices currently range from P35 ($0.74) to P40 ($0.85) per kilo. This GRP intervention, among others, help mitigate the negative effects of increasing rice prices. Hence, rice consumption estimates were raised for the period.

Very recent but unconfirmed reports, however, say that commercial rice prices have began to increase. Despite this, rice consumption will continue increasing in MY08/09 and MY09/10 as the Philippine population (estimated at 90 million) continues to grow rapidly (2 percent). Per capita consumption, estimated by the BAS at around 127 kilos in 2007, however, will remain at current levels. At this rate, national annual rice consumption would be approximately 11.4 MMT. The consumption figure in the table is higher, inclusive of processing, feed use, seeds and considerable wastage losses.

Overall wheat demand in MY07/08 was revised downwards primarily due to the considerable reduction in feed wheat consumption as a result of good local corn production. Likewise, the contraction of the local hog industry in 2008 as a result of successive animal disease outbreaks is expected to have dampened feed demand during the period. The hog industry accounts for over 80 percent of the livestock sectors' output. Milling wheat demand was also pared down as a shift to more rice consumption due to high wheat prices during the year. Competition from cheaper imported wheat flour also intensified during the period.

Overall wheat consumption is expected to recover and increase in MY08/09 as wheat and fuel prices abate with both food and feed wheat use posting increases from the previous year's level. Falling wheat and fuel prices, as well as the temporary removal of duties on wheat imports (see TRADE Section), have caused local wheat flour prices to decline to about P850 ($18.08) per 25-kilo bag from P970 ($20.63) per 25-kilo bag last year.

A shift away from feed corn to feed wheat use is also expected in MY08/09 as a result of tightness in corn supply late last year. Overall feedgrain consumption during the year will likely increase from the MY07/08 level as local hog and poultry raisers aggressively prepare for decreased regional tariffs form pork and poultry meat (see TRADE Section). Feed demand would have been higher had it not been for continued problems by the domestic hog industry. A recent detection of the Ebola reston virus in some local hogs farms and subsequently in some humans is likely to have a dampening effect on pork demand and consequently animal feed consumption.

Local corn reportedly very recently was selling at around P20 ($0.42) per kilo, higher than the P12 ($0.25) per kilo price in December 2008 and P13-14 per kilo ($0.27-0.29) early January 2009. Although the tightness in corn supply is expected to be temporary, its use for feed will likely be partially displaced by imported feed wheat and as a result, feed corn demand in MY08/09 is expected to decline from the previous year's level. However, corn spoilage losses are likely to increase during the period as a result of reported moisture-related post harvest problems. This is expected to compensate for the lost feed corn demand resulting in increased FSI consumption in MY08/09. Overall corn consumption during the year, therefore, will likely be flat compared to the previous year's level.

In MY09/10, a reversal of the previous year's feed consuming pattern is expected. Corn feed consumption during the year is expected to increase and will likely displace some feed wheat demand as competition from duty-free wheat imports would have ceased. Hence, feed wheat consumption in MY09/10 is expected to decline from the previous year's level while feed corn use is expected to increase during the period. No growth in food corn demand is predicted during the year as no significant growth in local production is expected. Milling wheat demand is expected to increase slightly as a result of the growing Philippine population.

Stocks

Overall grain stocks are expected to decline through MY09/10. Wheat and corn stocks are primarily in private storage. For rice, inventories are with the households, the commercial trade and the GRP's NFA. The latter is mandated to keep in its possession at all times at least 15 days of buffer rice stocks. During the lean months of July to September, rice stocks should be good for at least 30 days. Rice stocks were abnormally high in MY07/08 due to significant imports as well as good local production and are likely to decline through MY09/10 due to the increasing food demand of a growing population. The same declining trend is expected for corn inventories due to a decline from the MY07/08 production level and increasing feed demand in the next two years. Wheat stocks are likely to remain flat through MY09/10 as a result of overall business uncertainty brought about by the 2010 national elections and the global economic crisis.

Trade

Rice and corn imports in MY07/08 were both raised consistent with estimates from the World Trade Atlas (WTA) for the period. Wheat (and wheat flour) imports during the same period were also adjusted based on WTA data. Wheat flour imports, mainly from China, continued to make inroads in the wheat flour market and reached over 100,000 MT (product weight) in MY07/08, or roughly triple compared to the import level two years ago. There were no feed wheat (Code 1001.90.10) imports during the year, according to the WTA, as cheaper local corn likely displaced feed wheat use during the period.

Philippine rice imports in MY08/09 are expected to decline after considerable imports the previous year. The country has reportedly committed to buy 1.0 MMT to 1.5 MMT of rice from Vietnam in a government-to-government agreement for deliveries starting this month. Local DA officials have declined to confirm the actual volume, however. Imports during the year are likely to exceed 1.5 MMT as the country is expected to capitalize on the general softness in global rice prices. Rice imports are currently levied a 50 percent tariff, unchanged from the previous year's level.

Overall wheat imports in MY08/09 are expected to increase from the previous year's level as a result of the softening of global wheat prices as well as the recent tariff removal on wheat imports in late 2008 for a period of six months (refer to GAIN RP8066). Before this, milling wheat had a 3 percent duty while feedwheat tariffs were at 7 percent. Wheat flour import tariffs are also at 3 percent, and are expected to decline from the previous year's level because of the tariff removal on wheat imports. Feed wheat imports from Ukraine are likely to dominate feed wheat imports which, according to industry contacts were purchased at an estimated landed cost of P7 ($0.14) per kilo. Feed wheat imports are likely to surge during the year due to the corn shortage.

Corn imports in MY08/09 represent the 2009 minimum access volume (MAV) for corn estimated at 216,000 MT. The MAV is subject to a 35 percent tariff while corn imports beyond this volume will be charged the regular 50 percent duty.

As a result of increasing corn prices starting late last year, local feed millers, hog and poultry farmers in December 2008 requested the GRP for the duty-free privilege of importing 300,000 MT of corn. The petition was denied by the GRP the following month citing that it would unduly harm local corn farmers but acceded to a 200,000 MT corn importation subject to a 35 percent duty. The volume reportedly is to be brought in by the NFA although operational details are still being worked out. The end-users are pressing for deliveries around May 2009. In addition, the GRP has also provided the private sector an additional 200,000 MT stand-by corn importation volume. This quantity is to be brought in should tightness in corn supply persist despite the arrival of the initial 200,000 MT volume. The combined initial and stand-by import volumes are reflected in MY09/10 as delays in the issuance of the importation mechanics will likely result in deliveries pushed back to the second half of 2009.

Strong feedgrain demand by the domestic hog and poultry raisers is in preparation for the lowering of regional duties for pork and poultry meat imports within the region. The Common Effective Preferential Tariff (CEPT) Scheme is the main implementing mechanism of the Association of Southeast Asian Nation (ASEAN), to which the Philippines is a member. The CEPT Agreement requires that tariff rates among ASEAN members on a broad range of products be reduced to between zero percent and 5 percent, while quantitative restrictions and other non-tariff barriers are to be eliminated. Pork and poultry meat product tariffs, under the CEPT scheme, are currently at 20 percent and will decline to 5 percent in 2010. The rate was at 30 percent last year.

The country is still free of avian influenza (AI) and the declining CEPT tariffs present a unique opportunity for the local poultry industries to export to the ASEAN region. The Philippine DA has also applied for certification as an FMD-free country from the Office International des Epizooties or OIE (refer to p. 5 GAIN RP8012) for the entire country to be able to export pork in the region. Currently, only some areas are considered FMD-free zones.

Rice imports in MY09/10 are again expected to increase from the previous year's level as a result of the growing food needs of the expanding Philippine population. The holding of national elections in 2010 is also likely to encourage the GRP to secure its rice buffer stocks and strengthen its food security position through importation. During the same year, wheat imports are likely decline from the previous year's level as wheat tariffs revert to their original levels, however. With tariff protection back, corn demand is expected to rise. Corn imports are likely to rise as domestic corn production during the period will likely be flat compared to the previous year's level.

Marketing

The conduct by the U.S. Grains Council of numerous educational seminars, feeding trials, promotional events and consultations in the region have helped promote the use of distiller's dried grains and solubles (DDGS) inclusion ratios are carried out correctly. DDGS (Code 2303.30.00) imports more than doubled from about 35,000 MT in MY06/07 to more than 74,000 MT in MY07/08. DDGS imports through MY09/10 are likely to continue increasing as local end-users try and innovate ways of bringing down their feed costs.

Policy

The GRP has been supporting efforts by the local hog and poultry industries to export to the region. It raised the NFA's local corn buying prices in October 2008 (see GAIN RP8058) to encourage farmers to plant more. It subsequently removed wheat tariffs in November (see GAIN RP8066) as corn prices started to rise. As a remedial measure, the GRP very recently allowed the initial corn importation beyond the corn MAV.

Rice, Milled Philippines	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Area Harvested	4,250	4,250	4,346	4,300	4,300	4,400			4,400
Beginning Stocks	4,868	5,178	4,868	4,548	4,978	4,816			3,859
Milled Production	10,080	10,400	10,478	10,200	11,000	10,593			10,593
Rough Production	16,000	16,000	16,632	16,190	16,923	16,814			16,814
Milling Rate (.9999)	6,300	6,500	6,300	6,300	6,500	6,300			6,300
MY Imports	2,700	2,000	2,570	2,500	2,200	1,750			2,000
TY Imports	2,500	2,100	2,320	2,500	2,200	1,750			2,000
TY Imp. from U.S.	0	0	0	0	0	0			0
Total Supply	17,648	17,578	17,916	17,248	18,178	17,159			16,452
MY Exports	0	0	0	0	0	0			0
TY Exports	0	0	0	0	0	0			0
Total Consumption	13,100	12,600	13,100	13,200	13,000	13,300			13,450
Ending Stocks	4,548	4,978	4,816	4,048	5,178	3,859			3,002
Total Distribution	17,648	17,578	17,916	17,248	18,178	17,159			16,452
Yield (Rough)	4.	4.	3.827	4.	4.	3.8214			3.8214

Corn Philippines	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Area Harvested	2,650	2,650	2,736	2,600	2,700	2,750			2,750
Beginning Stocks	542	542	542	692	777	826			792
Production	7,250	7,250	7,277	6,500	7,300	6,900			6,900
MY Imports	50	135	157	100	50	216			400
TY Imports	25	135	22	100	50	216			400
TY Imp. from U.S.	1	0	2	0	0	0			0
Total Supply	7,842	7,927	7,976	7,292	8,127	7,942			8,092
MY Exports	0	0	0	0	0	0			0
TY Exports	0	0	0	0	0	0			0
Feed Consumption	5,350	5,350	5,350	5,300	5,550	5,150			5,350
FSI Consumption	1,800	1,800	1,800	1,700	1,800	2,000			2,000
Total Consumption	7,150	7,150	7,150	7,000	7,350	7,150			7,350
Ending Stocks	692	777	826	292	777	792			742
Total Distribution	7,842	7,927	7,976	7,292	8,127	7,942			8,092
Yield	3.	3.	2.6597	2.	3.	2.5091			2.5091

Wheat Philippines	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Area Harvested	0	0	0	0	0	0			0
Beginning Stocks	479	479	479	212	429	356			356
Production	0	0	0	0	0	0			0
MY Imports	2,263	2,350	1,877	2,800	2,000	2,450			2,375
TY Imports	2,263	2,350	1,877	2,800	2,000	2,450			2,375
TY Imp. from U.S.	0	0	0	0	0	0			0
Total Supply	2,742	2,829	2,356	3,012	2,429	2,806			2,731
MY Exports	30	0	0	25	0	0			0
TY Exports	25	0	0	25	0	0			0
Feed Consumption	350	400	50	500	50	400			300
FSI Consumption	2,150	2,000	1,950	2,200	1,975	2,050			2,075
Total Consumption	2,500	2,400	2,000	2,700	2,025	2,450			2,375
Ending Stocks	212	429	356	287	404	356			356
Total Distribution	2,742	2,829	2,356	3,012	2,429	2,806			2,731
Yield	0.	0.	0.	0.	0.	0.			0.